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INTERFERENCE WITH FOREIGN TRADE.

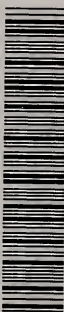


A Supplementary Chapter to
"ELEMENTS OF POLITICAL ECONOMY."

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SUPPLEMENTARY CHAPTER

INTERFERENCE WITH FOREIGN TRADE

THE essence of all honest trade is the exchange of what is in excess for what is in defect. The result of the exchange is to increase the resources of both the exchanging parties. They have given away what they needed less, in return for what they needed more; they have got what they needed more, in return for what they needed less.

Trade does not cease to have this quality if it is between foreigners. Indeed, the foreign article is sometimes so different from its equivalent, that the increase of resources resulting from the exchange of the two equivalents is even more unmistakable than in other exchanges. If we did not get tea and rice by foreign trade we should live without them altogether.

Foreign trade, like home trade, is spontaneous. As in the home trade men without any aid from

governments will adopt various occupations in various localities best suited for them, and then exchange their productions to mutual advantage, so, on the same principle of the division of labour, foreign trade will arise for the mutual gain of the traders and purchasers. The economy of resources secured by foreign trade is the same as is secured by the home trade. The differences of the two kinds of commerce are not radical but superficial; they are such as might and usually do exist between two distant parts of the home country. Calais is nearer London than Dublin; but the trade between London and Dublin is a home trade, and between London and Calais a foreign. The difference is connected not with industry or with situation, but with politics. London and Calais are under separate political governments, and therefore the trade between them belongs to a different species from the trade between Dublin and London.

This political difference has been the pretext for an interference of governments with foreign trade, long abandoned by most of them in the case of domestic exchanges. Within the borders of the modern State, a trade takes care of itself; but a foreign trade is thought to need the special care of the legislature. In most modern States, accordingly, we find an elaborate system of devices to secure what the wisdom of legislatures con-

ceives to be the better direction of the foreign trade of their peoples.

Governments usually interfere with foreign trade in order (as it is said) to "protect" the home industries against all and sundry foreign assailants. Protection is an attractive word, suggesting the righting of a wrong or the defence of the oppressed against the oppressor. But in its fiscal sense it is a good name given to a policy of doubtful goodness. It may even appear that it is, like "perversion" and "orthodoxy," a fallacy in one word which begs the question in dispute.

Who and what are to be protected, and against whom and what? The answer is in general terms, that the maker or seller of goods in the home market is to be protected against the competition of the foreign maker or seller of goods, the home maker being unable of himself to keep his market, and (very naturally) desiring that hindrances should be put in the way of his foreign rival.

The hindrance which his Government accordingly puts for him is usually a tax placed on the imported article. In order to enable the weak seller to go on selling at a profit at home, the Government puts a Protective Duty on his rival's goods. Contrariwise, in order to keep some foreign market for him that he is not able to keep for himself, they may give him a gratuity (or

Bounty) for each article he exports, in order that he may still be able to keep his prices to the level of the weak buyers and strong sellers in the foreign market. Again, if an article, especially a raw material, has been imported from abroad, and has paid its duty on entrance, and if our own citizens export it again, manufactured or not, Government may pay back to them the original duty, in order that they may not be hampered by the tax which was meant to be a burden to their rivals. There are, of course, drawbacks that have nothing to do with protection, being drawbacks of duties that are not protective. These are not at present in question.

All the items of the protective system, Bounties, Rebates, Drawbacks, Subsidies, Navigation Acts, Preferential Duties, and the rest, contain in substance the one fallacy or bundle of fallacies involved in the Protective Duty "simple, of itself." It will be best, therefore, to consider this last fully by itself in all its main aspects.

The classes of people concerned in the matter are (1) the producers, (2) the intermediaries, (3) the governments, (4) the consumers or ultimate beneficiaries.

The home producers may be taken to include landlords, capitalists, employers, and workmen. It is said that but for the protective duty the last three would lose their market and the first would

have lower rents. The capital invested in the unprotected business would be wasted ; the employers would lose their profits, or see them diminished ; the workmen would be thrown out of work, and, if their trade is a skilled trade, might find it hard to get another opening. The foreign producers include the same classes of men ; but we are supposed to have no consideration for their losses or prevented gains, though, as apparently doing their business better than their protected rivals, the foreign employers and workmen at least might be thought to deserve some sympathy.

The home intermediaries include the home merchants and shipowners who provide for the importation of the articles, and also those who deal in it after importation. The foreign intermediaries may be similarly divided. It is the interest of shippers to have their ships built as well and cheaply as possible, and therefore to have free access to the best materials and tools and men. It is their interest to have goods to carry, and therefore to have no obstacles placed in the way of the carriage of them. It is the interest of the merchant that there be imports as well as exports for the ships to carry ; the shippers cannot bring his goods so cheaply without a return cargo as with it. The shipping industry itself may desire (what it has sometimes

indeed obtained by Navigation Acts and Subsidies) protection for itself; but its interest is that other trades should be free. Of all English industries shipping is one of the most characteristic and important, peculiarly well suited to the special powers of Englishmen. We have not been outrivalled in this direction. In every nook of the Seven Seas may be found British ships carrying goods for the rest of the world, being free, almost alone free, to take a return cargo where they can find it.

As to the home government, it is not a certain gainer by a protective duty. The protective duty ceases to protect if it does not keep out all but the very strongest sellers; and, in proportion as these are few in number, the revenue from the tax must be correspondingly small. But this is to be expected; the duty is mainly for protection, only incidentally for revenue. The foreign government, on the other hand, loses by our protective duties only as all governments may lose when the trade of their subjects is curtailed.

Of all the four classes, the first and the fourth, the Producers and the Consumers, have interests of the greatest magnitude in the matter. To settle the dispute between them is to settle the question between free imports and protection.

The consumers or users of the article are the

persons for whose benefit the whole course of production and trade is supposed to exist. So deeply rooted is this conviction among the consumers (or customers) themselves, that no government has been able to entrust the "protection" of native industries to the good sense or patriotism of the consumers alone. The attempt to injure the cause of the slaveholders by voluntary abstinence from slave-grown sugar was never made by the consumers of eighty years ago on such a scale as to serve the purpose; and, where home industries are vexed by foreign competition, the home traders gain little or nothing by appealing to the patriotism of their fellow citizens. They are practically met by the answer that business is business, and that one man cannot afford to buy in any but the cheapest market unless all do so. Therefore the compulsion of the public force must come in to confine all, willy nilly, to the dearer market, shutting them up for example to the necessity of paying 30s. for a hat instead of 20s., because 30s. is the lowest price at which the home maker can make the hats at a profit.

When a man pays 30s. instead of 20s., he has 10s. less to lay out on other things, and the makers of these other things are the losers, while his own comforts are less by the value of 10s. The poor man who could have afforded a new hat at 20s. but not at 30s., dispenses with

the new hat and his comforts are less by one, the new hat. The hat makers for their part are presumably conducting their manufacture in a more costly way than their rivals; they are exactly on the plane of the users of obsolete imperfect tools, as compared with the possessors of the latest and best instruments. We might go farther and say they are on a level with those who work without tools against those who work with tools. As the working without tools is the more costly, there is a loss by the working that means no human gain; it is labour ill-spent against nature; and to keep it going is to defeat the attempt to conquer nature by invention. When we reap with the hand sickle instead of the reaping machine, we are wasting our resources and preferring scarcity to abundance. The ideal economy is the greatest possible abundance at the least possible cost in labour and materials. We secure this by invention, if we freely use the effects of the invention. We secure it by free imports. Modern science and invention have tended to lessen distance, and make common property of the fruits of the least costly production. A duty on imports does what it can to undo the achievements of science and invention in this particular. Science has brought Paris nearer to the frontier by a railway; but, as far as certain goods are concerned, the French

Government by protective duties removes Paris to its old position.

This is what happens if a duty is so truly protective as to be prohibitive, so high as absolutely to exclude all imports. There are many degrees between prohibition and free trade, between prohibitive duties and nominal duties ; but all duties, being so many obstacles in the way of trade, must tend to raise prices. For the time being, and so far as they go, they are the cause of a diminished supply ; and, as human nature is at present, there is a consequent advantage to the seller of which he will try to take advantage. The home producer will not sell at a low price if he can get a high price ; and with an effective protective duty his only rivals are his own countrymen. It is quite conceivable that a lively home competition might lead producers to invent new ways of lessening cost, and thereby of selling more cheaply and making the protective duty superfluous. But in most old countries, at least, to remove foreign rivals is to tempt the producer to rely on the ways of production to which he has been long accustomed. The production is too likely to lose both in quality and quantity. The acuteness of home competition when all the home competitors are lulled by the tariff into a sense of false security, is less likely to lead to the constant improvement of methods

of production than the felt presence of energetic rivals outside, keenly alert to lay hold of opportunities to undersell the home producer in his own market.

On the other hand, home competition is in most cases enough to prevent a higher range of profits than prevails in other trades not protected. If a protective duty on its first appearance tempts new capital into the protected trade, prices and profits will tend to go down to the new cost price, and there will be, as before, weak sellers who will see their market taken away from them. Even the protective duty is unable to save all the weakest and worst managed businesses from extinction. It raises the cost price, but in most cases not without limit, even if it has reached prohibition.

There are, of course, cases in which a prohibitive duty would advance the cost without assignable limit. If foreign imports of food were prohibited, and the population of the country had passed the stage at which the good lands of its own territory could supply it with food, the cost of the supply would then be that of the food raised in more costly ways from the better lands, or else raised on inferior lands, sandy, rocky, and ill-favoured by climate. For some time even in the case of England the supply might be forthcoming, but at a cost that would tend to be greater and

greater. The market price of the whole supply, as human nature now is, would be that of the portion of it raised at greatest cost and yet indispensable. If the price of such a quarter of wheat was 80s., the price of every quarter of wheat will tend to be 80s. The outlay on food of every inhabitant of the country will tend to become greater to that extent; and less of his income will be left for other purchases. It is not that the agricultural classes would gain all that was lost by the rest. The landlords would no doubt be considerable gainers. But the actual work of production has been made more costly to the producers on the margin; and a larger and larger proportion of the total gains of the agricultural class would be not profit but outlay, an outlay exactly analogous to the making of cloth by hand-loom in private houses instead of by power-loom in modern factories. To adopt deliberately a plan that involves waste instead of economy, is no doubt held to be justified in the case of war and preparations for war; but it is not easy to show that such a policy tends towards the enrichment of a people. In the case of food it is more dangerous than in the case of other comforts and even of other necessities. But the essential characteristic in all the cases is wastefulness.

We are told, however, that the indirect effects may be good, and that the end justifies the means. We are told that by Protection employment is found or kept for those that would otherwise be left unemployed. We are told that if our people lose as consumers, they gain as producers, for a just system of protection will extend to all industries, or at least all that need to be protected. The circle once closed, wages, we are told, will be kept from falling, or will even rise. We are told that the capital we spend, unproductively to the country, on foreign imports, will under Protection be invested in concerns at home, so that we shall be in a position to export rather than to import; indeed, the balance will be turned; instead of importing more than we export, we shall have an excess of exports, and it is more blessed to give than to receive. Moreover, we are told, industries that are weak now, may after a short period of protection become strong enough to live without protection. Finally, it is said that it is well we should imitate other nations, and raise a large revenue from the taxation of goods, our basis of taxation having hitherto been too narrow and the taxation, therefore, having pressed too hard on the middle and upper classes. We need not (it is said) have any scruple in doing this, for the duties can be so contrived that the foreign exporter really pays

them, and our Government gains without our people losing. Instead of being tributary to the foreigner, we shall, it is said, make him tributary to us. We are reminded that nearly all other nations have gone the way of protection, and that we ought not to believe ourselves wiser than our neighbours.

If we accept the last argument, the case is settled; and we have simply to import our commercial policy from abroad, instead of the goods which have hitherto made the life of an English citizen larger and better equipped with the comforts of life than the life of a citizen of France, Italy, or Germany. It is, perhaps, a sufficient answer that our rivals are not more nearly infallible than our own ancestors, and that we have hitherto found it better, without fear of man, to take a way of our own in politics, religion, and social reform. For some four hundred years we have admitted the exiles of all countries, to our great industrial benefit, with no examples to guide us. Factory legislation was adopted by us as resolutely as Free Trade; and we have not been deterred from extending it by the reluctance of our rivals to follow our example. If we stood alone, our policy would not therefore be wrong.

We must consequently take the earlier arguments on their merits, and not be too modest to pronounce them bad if they seem so to us.

First, it is said, Protection creates employment. The same was said once of labour by hand as against labour with machinery. More hands will be needed to reap a field with sickles than with the reaping machine. But the end of all economy is to lessen labour; when we have done all we can in this direction, there will still be work for all to do, in ways that lead to new triumphs over nature. To refuse to lessen labour where it can be lessened, is to waste labour. Labour is not an end in itself; we work in order to have the good things of life. The workman himself, on whose behalf the argument is urged, wants wages not work. If all were to use the most laborious and costly ways of production, his wages at a given rate would lose in power of purchasing. Not only his food, but his clothes and his little luxuries would all be dearer; instead of abundance, he would have scarcity. If he were already very poor, he would be brought to destitution. The dearness of the protected articles would leave the buyers with less to spend on other articles, and would thereby decrease the "demand for labour."

The answer usually made to this criticism is that where all (which is equitable), and not only a few, are protected, the rate of wages would go up for all, and all would fare as before. We may reply that, if all fare only as before, there seems no

virtue in the change ; the change would only mean that the purchasing power of money had fallen. But, though it is true that prices would go up for all if all articles were to be made in a costly instead of an economical way, wages are slow to follow prices. Wages tend to be greater, only (1) if the productiveness of labour or the value of its product generally, has increased ; (2) if the strength of the workman, as compared with the employer, is greater, either through fewness of numbers in face of a large demand, or through organisation. Wages are high in America and Australia ; they are low in Italy, Germany, and Russia ; yet those countries are all alike "protected." There is nothing in Protection to imply either of the two causes of increase, but rather the reverse. If it be said that the way to enrich every one is to close the circle and confine the citizens entirely to the productions of its small area, the plan might be tried with counties, or even cities, of a State ; a besieged city would fare excellently, from this point of view. But States have so little belief in the economical benefits of thus closing the doors, that within their own boundaries no county or city is thus closed ; a new territory added to the State has Free Trade with all the rest, and the others inundate it with free imports. All the forty-five States and seven Territories of the American Union are in this

position. What is deemed good for the whole in relation to other wholes is not deemed so for the parts in relation to each other.

Moreover, though in equity protection should be extended to all, in no country is this the case, and for the obvious reason that in no country are all the industries in equal need of protection. A country where all the trades would die without protection, would be a country where every business was bankrupt, unless supported by the State; and it would be hard to see from what quarter the Exchequer would find resources to give the support; the State itself would be quickly bankrupt. As a matter of fact, the industries that are in no need of protection support the rest, as truly as the ratepayers support the poor by a poor rate. The richer a country is, the more lightly it feels such a burden. In the United States, the wealthiest country in the whole world, both in men and in material resources, the sacrifice involved in Protection might be doubled without being felt to be serious. It is, perhaps, the one country which could afford to be a closed State. Wages are high because the productive power of labour, largely assisted by inventive enterprise, is very great, and the organisation of working-men, though not equal to that of the English trade unions, is still effective enough to enable the men to seize opportunities when they

appear. The foreign trade of the country is a comparatively small portion of the whole, the imports for home consumption being valued in 1900 at about £168,000,000, and the exports of home produce at £303,000,000 (*Statist. Abstr., Foreign Countries*, No. XXVIII., publ. 1902, pp. 45, 49), though the population in 1900 was seventy-six millions (*ib.*, p. 9). The largest trade of all (in corn and "bread stuffs"), needs no protection; and the wages of the protected trades, trades which are a fraction of a fraction, could hardly set the standard for all the rest, or be much disturbed by the introduction of free imports.

It is otherwise with many countries of Europe; and a change from Protection to Free Trade, if suddenly made, might have all the effects of a new invention in the temporary displacement and sufferings of workmen. There might be a positive advantage to the community in a direct subvention given to such sufferers. Such a grant would not have the evils of a protective duty. It would be a burden on the rates or taxes, of known and definite amount, leaving the new invention and the free imports to benefit the whole body of consumers, and make them more able than before to give such help. It would be temporary, for the surplus labour is soon absorbed by the new industry itself. But a

tax on imports or on inventions would tend to raise the price over the whole area of the market, with a loss to the whole body of consumers far beyond what was received by the Government. The threatened producers would be saved from bankruptcy and poverty at an extravagant cost to the country, and would be too likely to be a permanent burden on it.

A tax on imports, like all other taxes, may have a tendency that is concealed or counteracted by the plurality of causes, characteristic of large civilised communities. Its tendency none the less is to raise the price of the article taxed; as protective, it is meant to do so, and as an undoubted obstacle to supply it will tend to do so. Suppose a Government to place a tax of 5s. a quarter on wheat. Against each payment of 5s. must be set the expense of collecting it. To widen the range of the tariff means to swell the number of salaried officials and their equipment. The net sum received by the Exchequer will be less than 5s. But, if the imported wheat is, say, half of the whole supply, being presumably needed quite as much as the other half it will fix the price of the whole supply; the price of *both* halves will tend to be raised by 5s. All consumers will pay 5s. more, but the Government will receive barely 5s. for half of the total number of quarters. The people lose more than the Government gains. They have

5s. the less to devote to other purchases. Now a grant or subvention to the amount of the number of imported quarters multiplied by 5s. would not have inflicted this loss on the consumers, but would have cost them only the stated sum in taxes, with an allowance for collection. In both cases we should be relieving one class of men at the expense of all the other classes; but in the case of the grant we should be frankly relieving them out of the rates and taxes; in the case of the duty, we should be relieving them in a way that caused more loss to the community than gain to the individuals relieved, though the community would be made less plainly aware of its loss.

If the example taken had not been a necessary but a luxury, the effects would have seemed less striking, because you injure a man less by raising the price of his luxuries than by raising the price of his daily food. But the wastefulness would have been precisely similar. The community would have sacrificed more than was gained either by the Government or by the sufferers. If the protection is effective, the duty would bring little or nothing to the Government at all. The traders above the margin who needed no protection would nevertheless gain by it. Those just at or under the margin without protection, would be raised above it by the aid of the duty. Their impending fate was bankruptcy, and the duty saves them from it.

This is in fact the service contemplated in the argument above mentioned — that Protection enables capital to be invested at home. It is invested at home in businesses confessedly too weak to live without it. We are told that, even if they be weak, they are carried on in this country to the encouragement of trade in their whole neighbourhood, whereas capital invested abroad gives three-fourths of its benefits to the foreign place where it is invested. The case is again analogous to the case of machinery. To use the power-loom in place of the hand-loom is to do in an hour what might have employed many men for days. But to do it by hand-loom is to do it in a needlessly costly manner, and therefore to waste labour. Instead of creating abundance among our people, we might give work and wages, and profits and rent, to a very few in a corner of the kingdom, at the cost of all the rest of the population. Imports are a discouragement not of labour but of useless labour. If instead of making an article we import it, we are not dispensed from making the equivalent in which to pay for it; but the labour of making the equivalent is on the assumptions a less costly labour and therefore better for all concerned.

The investment of capital at home is praised so highly from the idea that, though an individual gains by what he receives, a nation gains by what

she gives away. It is the idea that it is good for a nation to export more than she imports, but unsafe to have the contrary experience. Yet trade does not cease to be an exchange of equivalents because it is between individuals of different nations. In every bargain, we may be sure nothing is given for nothing ; and therefore there can be no exports without imports, or imports without exports. It might appear from the English balance (*Statist. Abstr.*, United Kingdom, xlix., publ. 1902, p. 49) that the imports are far ahead of the exports. The imports in 1900 were £523,000,000, in 1901 £521,000,000 ; the exports in 1900 were £354,000,000, in 1901 £347,000,000.

But the foreigner is not really so generous as might thus appear. He owes us large sums, for which exports went out long ago without immediate equivalent, and he is now paying his interest to us in the shape of imports that come here without present equivalent. He is, besides, constantly paying freights for the service of our ships in conveyance of goods, without any entry on the registers of our officials of this "service," of which the freights are the value, and which is really one of our exports. In the Government returns, the imports are taken at their price on landing, and the exports at their price on starting. It might truly be said, therefore, that the exports are always

greater than they are declared to be by the Board of Trade.

If the excess of imports had been a clear profit or free gift to our merchants, there would surely have been little grievance. Some have had an uneasy suspicion that the difference was paid in the precious metals, and that all the gold and silver would soon be drained away from England to pay for her imports. But the recorded exports of gold and silver were for 1900 £18,000,000, for 1901 £13,000,000, while the imports of them were for 1900 £26,000,000, and for 1901 £20,000,000 (*Statist. Abstr.*, United Kingdom, as above, pp. 139, 145). There was no drain of gold and silver; we received £15,000,000 more than we sent away. The private trader usually counts it more blessed to receive than to give, whether it be gold or goods. We may be sure that our foreign customers will see to it that against every purchase there is a sale. If our sales ever fall off, it is no remedy to obstruct our purchases, for he who purchases from us must in one form or another receive our goods in payment. Every private trader knows this; but it seems to be the aim of some Governments to make their merchants sell without buying. In the case, not of a whole group of countries but of two particular countries, it may sometimes appear that this idea has been carried out; one may export

to another a great deal more than it receives from that other. But in such cases there is a round-about trade; there is a third country which is debtor to the one receiving the exports, and becomes the means of paying for them with her own exports, to the settlement of the debt. If a single State, say Russia, were to become in regard to imports a closed State, not against one or two others, but against all and sundry, trade might go on for some little time perhaps, if gold were not included in the embargo. It would be a trade of a highly costly nature. The exported goods would be carried for gold without any return cargoes of other goods. Gold would soon become a drug in the closed country, and more valuable in the importing country, with the usual effects on prices. On the other hand, if the closing included gold, there would no longer be any trade. It takes two articles to keep up a trade, and to confine it to one is to essay an impossibility. The history of the Berlin Decree and the Orders in Council of a hundred years ago may show that no Governments are strong enough to enforce such embargoes on a great scale. Few Governments would attempt them on the small scale. If Suffolk were to resent being "tributary" to Lancashire, and were to exclude not only the goods of Lancashire, but the goods of all other counties and countries that might serve as intermediaries, the

only result would be the impoverishment of Suffolk. We see the mistake clearly enough where we are dealing with our own counties ; but good economy does not cease to be good economy when applied on the larger scale.

The excess of imports wears quite a different appearance even to the eye of vulgar logic, when we look at quantities instead of values. If 15,000,000 cwt. of bacon, and beef, and mutton were imported in 1901 into this country, and all but a quarter of a million stayed there (*Statist. Abstr.*, U.K., as above cited, pp. 59, 65, 129), we may be sure that the gainers were not only our rich men, whose power of consumption is limited, but the great mass of our people ; and this is so whether the profits of the importing merchants were high or low. The great argument for free imports is not that it increases the profits of our traders, but that it multiplies the comforts of our people. It creates abundance. Protection, to keep up the profits of certain classes, tends to create a scarcity for all the rest. In statistics of imports quantities are of more importance than values for an insight into this fact. The fortunes of merchants may depend on the values ; the real national income from foreign trade depends on the quantities.

It is said, however, that though not good as a standing policy, Protection may be good

for a time when applied to a few trades just trembling on the verge of failure, but capable of vigorous growth by and by. This principle has been often applied in our own Colonies. But few of these nurslings seem ever to reach manhood, and admit that they can stand alone. Once protected, a trade tends to secure a vested right to be always protected. Temporary protection is apt to mean permanent protection. In giving any such protection at all, the community is making a distinct sacrifice. The future may repay the sacrifice ; the political results may conceivably justify it. But it is not for the time an economy ; it is a sacrifice of economy. Considering the effects of such a proceeding on the whole range of prices for the articles concerned, we might fairly be led to conclude that an encouragement by direct grant would serve the same purpose with less mischief. As a rule, in the older countries the cry for Protection is raised, not by the young industries but by the feeble and old, disinclined to bestir themselves and adopt new methods. The claim for protection is everywhere a claim either of weakness addressed to a strong Government, or of interested strength only too capable of controlling a weak Government. Here in England we need to remember that, if we revive Protection, we are laying new burdens on a legislature already unequal to the old tasks,

In addition to all the old political work, the care of all the trades and industries would be laid on the legislator ; and the motive of encouraging his own business or that of his constituents could hardly be absent from his decisions, where there were constant temptations and opportunities. Such motives were rampant in our own Parliament at the beginning of the nineteenth century ; and we have not hitherto been proud of this feature of our unreformed Parliaments.

It would be a dear price to pay for widening the basis of taxation. Sir Robert Peel stated in Parliament on 11th March 1842, that the tariff then included 1200 articles, of which he proposed to remove 750 from the list, still leaving 450. The present tariff may be said to include 20, taxed for revenue only, with an Excise to supplement the Customs. The fiscal system of 1842 still retained the distinctive treatment of raw materials and manufactured articles, and of Canada and foreign countries. The special treatment of raw materials, giving them free entrance while manufactures are taxed, may be criticised as involving the fallacy that labour is profitably expended on raw material to be afterwards exported as a manufacture, but not profitably expended on the home articles of manufacture exported as equivalents for the foreign imported manufactures. We can, however, get no foreign articles,

raw or manufactured, without such equivalent, and our labour may be quite profitably expended on either.

At present in many European countries the distinction still remains; and in the case of sugar in particular it has led to international heartburnings.

One difficulty of the distinction is, that, like other human distinctions, it depends on circumstances and varies with them. What is finished article to one manufacturer may be raw material to another. Cut timber is a finished article to the forester whose tree is his raw material; the cut timber is raw material to the builder. The unrefined juice of the sugar cane or beetroot is raw material to the sugar refiner; but the refiner's refined sugar, which is his finished article, is raw material to the confectioner and maker of jam. It had been the practice in many European States to tax the raw sugar, but to give a drawback of the duty when the refined sugar was exported. In experience it was found that these drawbacks tended to exceed the amount actually paid as duty. The officials based their tax of the raw sugar on a calculation of the amount of refined sugar that could be got out of it or out of the roots on an average; and their drawback was granted on the actually produced amount of refined sugar. The calculation was

often an underestimate ; and the drawback became in this way a bounty, at which the Governments were led by the sugar refiners to connive. The ordinary French or Austrian citizen who was not a sugar refiner paid taxes to keep up the bounty, and also paid more for his sugar, or (what is the same thing) got it of an inferior quality. By an International Convention which comes into force at the end of this year (1903), this system it is hoped will be brought to an end. We need not regret the disappearance of it. It seems clear that for many years our people have gained more by it than our sugar producers have lost. Not only is sugar an article of universal consumption, but it is a raw material the cheapness of which has led to a corresponding cheapness of confectionery and kindred products. Still the situation had all the precariousness of a situation artificially created by manipulation of tariffs. Its lesson for us is the bad effects on long-suffering foreign peoples of the domination of a single powerful manufacturing interest in the counsels of their Governments. A bounty tends to have all the effects of a duty, by artificially lessening the abundance of the article concerned in the home market itself, and giving to a few producers a market they would otherwise have lost. Protection is avowedly intended to benefit one nation at the expense of all the

rest ; but what it succeeds in doing, is to benefit one section of its own people at the cost of all the other sections.

Protection, not so much for our own benefit as for that of our Colonies, has a more insidious attraction. It is at least better than the old policy of exhausting the Colonies for the benefit of the Mother Country. But the mischievous effects of Protection, being beyond control of Parliaments, do not cease to act because the intentions of Parliament are good, or because statesmen have new motives for adopting Protection.

The fiscal system of 1842 retained the preference given to the Colonies, especially to Canada. The timber of Canada entered at a nominal duty ; foreign timber, which had hitherto paid a tax of about 41s. a load, was now to be taxed at about 30s. "I think it is most desirable to act upon this principle as far as you can with safety to the general interest, namely, that you should treat Canada as if she were an integral part of the kingdom" (Speech of Sir R. Peel above quoted). The reduction was a boon not to be measured by the loss to the Treasury of £600,000 a year. Yet, though under a "nominal" duty of 1s., Canada, having the sea as an obstacle, was scarcely treated as an integral part of the Empire, the protection of her against the Baltic was suffi-

ciently complete, and British builders of houses and ships endured unnecessary dearness, and often indifferent quality of wood, a little longer.

Now, in 1903, we are asked to revert to the like Colonial Preferences. We are told that one essential condition of the integral union and federation of England with the self-governing Colonies, is the revival of duties against foreign imports, in order that we may have them to remit in the case of the Colonial imports. For all British possessions we are to have Free Trade; for all foreign countries a Protective Tariff, wherever they have one. It is argued that in this way not only do we give our Colonies an encouragement that they do not now possess, but we put it in our power to retaliate against the countries which now exclude our own goods, or which tax them or the goods of our Colonies severely. In the first case we may, it is said, further a political advantage by the system of preferential duties; in the second, we may coerce foreign rivals into Free Trade by retaliation.

Our Colonies themselves, as soon as they have been endowed by us with self-government have, with very few exceptions (such as New South Wales before Confederation), shown at once that they did not regard themselves, for commercial purposes, as integral parts of the Empire. Fiscal autonomy has not led to fiscal

uniformity, and will probably do so only after the whole Empire is really of one mind. It is perhaps here as with the question of the universal extension of Free Trade. When the nations have the feelings that lead to international peace, Free Trade will follow of itself. When the Colonies feel really at one with us, they will have Free Trade with us. There is no greater impediment to Free Trade than political enmity, which is unwilling to benefit a stranger, even if the benefit is mutual. But to produce Free Trade or fiscal uniformity by legislation, will be too hard a task for even the wisest statesmen.

Either we believe in the virtues of Protection, or we do not. If we do, we can hardly be surprised if Canada, and Australia, and New Zealand continue to "protect" themselves against their most formidable competitor in manufactures, the English manufacturer. If we do not, it seems scarcely reasonable for us to follow our children's bad example, and come down to the continental standard, instead of trying to raise the Colonies to our own standard. With the hard-headed, picked men of the Colonies, sound reasoning is likely to prevail in the end; economic motives have freer play in the Colonies than even in England, and appeal can be made to such motives with the more confidence.

If Protection is good for the Empire against

the foreigner, our English producers are not likely to allow the Colonies alone to have the benefit of it; and we shall have a system of protective duties such as prevailed in the first half of the nineteenth century. On the other hand, if Free Trade is good for the Empire within itself, the Colonies make no more sacrifice in adopting it with us there than Kent or Sussex, which have long ceased to be protected against the other counties which were fatal rivals to some of their industries.

It is to be feared that as yet the Colonies do not see the matter in this light, and will not take the first step to integral commercial union, by consenting to absolute Free Trade within the Empire, still less by consenting to absolute Free Trade thereafter, with the foreigner.

If we suppose for the moment that they agree to Free Trade within the Empire, they will probably have enough of the old Adam left in them to ask that as against the foreigner they shall be protected, and, as they are many, that they shall be equally protected, not one more than another. If the corn of Canada is to be protected, the wool of Australia must be. It is argued, in the case of Canadian corn, that the half-developed agricultural resources of Canada may, in a generation perhaps, be equal to the task of supplying our whole corn market. Meanwhile

we shall be confronted with the free trader's criticism that during the interval the taxed corn will mean dear corn, and the dearness will not merely be that of the foreign imported supplies actually taxed, but of our whole stock—home, colonial, and foreign, the dearest necessary part fixing the price of the whole. We shall, perhaps, after a generation has passed, be fully provided with corn by our Colonies. During the interval, English agriculture will be protected, except as against its Colonial rivals, whose success it may never challenge. At the end of the interval, English agriculture will be placed as it is now; and the revenue derived from the tax will have ceased, as the need of the taxed corn will no longer exist. Our widened basis of taxation, in regard to corn, will only serve us well financially during the trying times of unnecessary dearness due to our self-denying ordinance; our poor will suffer most hardship at the time when, from this source at least, the Exchequer is enjoying most prosperity. To endure this great present sacrifice, the nation must be wealthier than any of us have thought. There is every reason to believe that wealth is greater, and even more widely diffused now, than ever before. But there are still large strata of the very poor to whom the dearness of common articles means a deeper poverty than the wealthier classes can easily imagine. Our Colonies

themselves are not so poor as to need such a sacrifice from our poorest for a problematical gain to them which, except in sentiment, is no gain to us. There is, in the long run, no essential difference between the proposal that we should be confined to the produce of Greater England, and the old project that we should be confined to the produce of the Smaller England—a project which our rulers tried to carry out a hundred years ago, with immense suffering to our people, till after thirty years the hand of Parliament was forced from the outside by the popular agitation against the Corn Laws.

It is urged, however, that new times require a new policy, that, from having been so long discarded, the weapons of Protection may now be regarded as new, and against an enemy that employs them, they are likely to be the best weapons. But in war we do not attack the enemy with the arms most effective in his hands, but with the arms most effective in ours, and we do not consult him in the matter. If he has only infantry, we should not scruple to use our cavalry; and the reproach that we used it sixty years ago would not deter us. In matters of common sense, *le temps ne fait rien à l'affaire*.

It is no doubt perfectly true that Free Trade on one side and Protection on the other are not such a boon as Free Trade on both sides. But

the free trader, though he would like to see his views universal, is convinced by his own arguments that to have free right of purchase with a limited right of sale is better than to have obstruction to both purchase and sale. Though he is not always allowed to sell in the best market, he is glad to be still allowed to buy in it. No private individual or family would judge otherwise about its sales and purchases. We are advised, however, to threaten those Governments that refuse us free sale with a withdrawal of our free purchase. This is the negative side of the scheme of Preferential Duties.

Those that exclude our goods or the goods of our Colonies may, it is said, be induced to admit them if we threaten to injure their traders by taxing their goods on importation. But retaliation means, that, to try to do a little right and perhaps fail to do it, we should do a great wrong beyond doubt of failure. Without laying stress on the fact that English capital is widely invested abroad, and its returns would share in the injury we might hope to inflict on the foreigner, we may simply say that to our own citizens the immediate sacrifice is sure, and the ultimate reward uncertain. In some of the most important cases the retaliation could meet with a retaliation of a like sort, to which our widely

extended trade leaves us peculiarly sensitive. If we taxed the imports from the United States because of fiscal injuries received by us or our Colonies, the result might be a restriction of our supplies of cotton, or an obstruction of the facilities granted to Canadian exporters of corn in the winter months. No doubt, if in face of the Constitution the exportation of cotton were stopped or hindered, the injury done by the United States to its own citizens would be evident; but it would not be more real than the injury deliberately done by ourselves to our own citizens in the first instances. To begin a war of tariffs is, besides, to sow the seeds of actual war. Germany, though it has not the commanding position of the United States, is sure to reply in kind, with a growing desire to express its resentment in military action. Long ago we levied high duties on French claret in order to benefit the Portuguese "who dealt at our shop," thus erecting "the arts of underling tradesmen into political maxims for the conduct of a great empire." We even tried by our Navigation Acts to prevent foreign ships from bringing our cargoes, which was a plan quite analogous to the plan of excluding all vehicles from London that were not of London manufacture. We have long ago abandoned this Chauvinism; and experience does not

teach us that the best way of converting our neighbours is to become backsliders ourselves.

In dealing with these questions, we need always to remember that we are on the same plane with continental nations, but not on the same plane with the United States. Even a really integral fiscal union with our Colonies would leave England far less able to bear the sacrifice involved in Protection than the great Western Republic. Our American neighbour is wealthy enough, with her eighty millions of people, her capital overflowing into our own country, and her immense territory full of natural riches, to enrich us as well as herself. It must be a blind trade that does not benefit both parties. It is not entirely a loss to us that the United States have not adopted free trade. Free trade is a contrivance for saving labour, and if they were to add it to their large store of such devices, they would increase their superiority over their commercial rivals. To their own misfortune in their Tariff they allow the interests of particular classes to control the commercial policy of their Government; and the American Trusts, if not created by Protection are largely assisted by it, though they are sometimes shrewd enough to keep down prices in order not to tempt destiny.

Governments are too often more anxious

to help their subjects in groups, than to help them as a whole. By the policy of free imports on the contrary we provide for the whole, well assured that self-interest and the stimulus of competition will lead the separate classes to provide for themselves. This policy involves the belief that, if we secure our citizens against tyranny, ignorance, fraud, and disease at home, they will be well fitted to choose their own careers and play their part in the world. It involves the belief that our neighbours' prosperity is no injury to us, but tends, if we are wise, to our benefit; that the Great Intercourse of trade in material goods should be as beneficently free as, in spite of distance, language, and habits, the exchange of thoughts has been in literature, science, and the fine arts. The policy of Open Doors is nobler than that of Closed States. It is less good to strive exclusively for the aggrandisement even of Greater England, than to advocate for the whole world that policy which will make the resources of the whole world go farthest for the good of all its inhabitants.

